

Message Text

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PAGE 01 STATE 069267 TOSEC 030071
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NO. 7 FOR CARTER FROM PA

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TAGS: SOPN, OVIP (VANCE)

SUBJECT: PRESS MATERIAL

1. HEREWITH FULL TEXT WALL STREET JOURNAL EDITORIAL
TUESDAY MARCH 29 HEADED "WINDING DOWN IN RUSSIA."

2. WITH SECRETARY OF STATE CYRUS VANCE HOLDING THE
CARTER ADMINISTRATION'S FIRST TALKS WITH CHAIRMAN
BREZHNEV AND OTHER KREMLIN LEADERS, THIS IS AN OPPOR-
TUNE TIME TO REVIEW THE FUNDAMENTAL POINT OF LEVERAGE
THE U.S. HOLDS IN DEALING WITH THE SOVIETS. THEIR
ECONOMIC GROWTH HAS BEEN SLOWING FOR A LONG TIME NOW,
AND MOSCOW SEEMS UNABLE TO REVERSE THE TREND.

3. THE SOVIET ECONOMIC PROBLEM HAS BEEN CLOSELY WATCHED
BY SUCH EMINENT AMERICAN SOVIETOLOGISTS AS HARVARD'S
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PAGE 02 STATE 069267 TOSEC 030071

ABRAM BERGSON AND PENNSYLVANIA'S HERBERT S. LEVINE. IN
SIMPLEST TERMS, GROWTH IN SOVIET PRODUCTIVITY HAS BEEN
STEADILY SLOWING, DESPITE A HIGH RATE OF CAPITAL FORMA-
TION. THE SOVIET SYSTEM SIMPLY DOES NOT ENCOURAGE INNO-
VATION -- MANAGERIAL INNOVATION IN PARTICULAR -- AND IT
IS HARD (SOME MIGHT SAY IMPOSSIBLE) TO SUSTAIN PRODUC-
TIVITY GROWTH WITHOUT INNOVATION.

4. WITH A PRODUCTIVITY GROWTH SOMEWHERE UNDER ONE PERCENT, THE SOVIETS NEED CONTINUED GROWTH IN THE LABOR FORCE AND CAPITAL FORMATION IF THEY ARE TO HAVE REAL ECONOMIC GROWTH. ON BOTH FRONTS THEY FACE PROBLEMS.

5. THE LABOR FORCE IS NOT GROWING RAPIDLY BECAUSE THE SOVIET BIRTH RATE IS LOW -- PARTICULARLY IN THE RUSSIAN REPUBLIC ITSELF, WHICH IS WHERE THE SOVIETS WOULD EXPECT TO GET THEIR MOST PRODUCTIVE LABOR. THE REASONS HAVE BEEN MUCH DISCUSSED BUT PROBABLY HAVE TO DO IN PART WITH INADEQUATE HOUSING WHICH IS ATTRIBUTABLE TO LOW PRODUCTIVITY ITSELF.

6. AS FOR ADDITIONAL CAPITAL FORMATION, THERE ARE DOUBTS ABOUT HOW MUCH MORE THE GOVERNMENT CAN ASK ITS PEOPLE TO SAVE. IN AN ECONOMY THAT DOESN'T OFFER MANY GOODS AND SERVICES TO BUY, THE CURRENT HIGH SAVINGS RATE IS EASY TO EXPLAIN. BUT SOVIET CITIZENS ARE NOT MUCH DIFFERENT FROM ANYONE ELSE. THEY SAVE IN ORDER TO EVENTUALLY BUY. IF THERE ARE NOT ENOUGH GOODS TO BUY, THERE IS NOT MUCH POINT IN SAVING STILL MORE AND CERTAINLY NOT MUCH POINT IN WORKING HARDER, I.E., INCREASING PRODUCTIVITY.

7. WHEN YOU ADD THAT UP, YOU HAVE AN ECONOMIC SYSTEM THAT IS GOING NOWHERE MUCH OVER THE NEXT DECADE OR SO UNLESS THE NATION'S LEADERS CAN FIGURE OUT SOME WAY TO ALTER THE BASIC FLAWS. TO DO THAT IN ANY TRULY EFFEC-

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PAGE 03 STATE 069267 TOSEC 030071

TIVE WAY WOULD REQUIRE THE SOVIET STATE TO GIVE UP CONTROLS THAT THE STATE'S BUREAUCRATS AND THE COMMUNIST PARTY CHERISH -- OVER MARKET TRANSACTIONS, OVER PRIVATE OWNERSHIP OF PROPERTY AND PRODUCTION AND OVER FREE WILL AND FREE DECISION-MAKING BY THE PEOPLE. THEY HAVE SHOWN ABSOLUTELY NO INCLINATION TOWARDS TRYING THAT. WHAT THEY HAVE DONE INSTEAD IS WHAT THE CZARS DID PERIODICALLY FOR CENTURIES, ATTEMPT TO BUY TECHNOLOGY OUTSIDE THE COUNTRY TO MAKE THEIR SYSTEM MORE EFFICIENT.

8. BUT HERE, TOO, THEY HAVE A PROBLEM. SINCE THEY ARE INEPT AT SELLING MANUFACTURED GOODS IN FREE MARKETS ABROAD, THEY CONTINUE TO DEPEND, AS RUSSIA HAS FOR CENTURIES, ON SALES OF BASIC COMMODITIES AS A SOURCE OF FOREIGN EXCHANGE. WHILE THIS HAS SUCCEEDED TO A DEGREE, THE SOVIET UNION HAS ALSO RUN UP A SIZABLE FOREIGN DEBT. ITS CREDIT WORTHINESS IS COMING INTO QUESTION, SIMPLY BECAUSE ITS EXPORT SALES POTENTIAL RELATIVE TO ITS BORROWING NEEDS OVER THE NEXT FEW YEARS IS SUBJECT TO

DOUBT.

9. THE U.S. COULD THEORETICALLY TURN THE SOVIET SITUATION TO ITS OWN ENDS -- AND SOME SOVIETOLOGISTS ARE SUGGESTING THAT WE DO SO -- THROUGH THE PROCESS KNOWN AS "LINKAGE." THE U.S. WOULD USE DOLLAR LOANS TO THE RUSSIANS TO BUY, IN EFFECT, FAVORABLE ARMS CONTROL AGREEMENTS, GREATER CONCERN FOR HUMAN RIGHTS IN THE U.S.S.R., REDUCED SOVIET INTERFERENCE IN THE MIDDLE EAST AND AFRICA, OR SOMETHING ELSE WE WANT.

10. GIVEN THE COMPLEXITIES OF AMERICAN POLITICS, HOWEVER, THE U.S. HAS TROUBLE DECIDING WHAT IT REALLY WANTS TO BUY. THE JACKSON AMENDMENT OF A FEW YEARS BACK, FOR EXAMPLE, WAS AN EFFORT TO PURCHASE FREER IMMIGRATION FOR SOVIET JEWS. WAS THAT THE MOST APPROPRIATE CHOICE WHEN AMERICA IS THREATENED WITH A VAST UNCLASSIFIED

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PAGE 04 STATE 069267 TOSEC 030071

SOVIET MILITARY BUILD-UP? ALSO, LOANS IN EXCHANGE FOR POLITICAL CONCESSIONS CAN LEAD TO EXTORTION -- THE THREAT OF CAUSING A NEW MIDEAST BREAKDOWN FOR EXAMPLE. FINALLY, THE U.S. GOVERNMENT IS CURRENTLY A HEAVY BORROWER ITSELF -- WHERE DOES IT GET THE MONEY?

11. SPECIFIC PLOYS ASIDE, THOUGH, IN NEGOTIATING OVER STRATEGIC ARMS OR HUMAN RIGHTS OR WHATEVER, IT'S IMPORTANT TO UNDERSTAND THAT THE SOVIET SYSTEM DOES HAVE LARGE AND IMPORTANT WEAKNESSES. CERTAINLY WHEN IT COMES TO ECONOMIC DEVELOPMENT, THE SOVIETS NEED THE WEST A LOT MORE THAN WE NEED THEM. END TEXT.
CHRISTOPHER

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